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June
2013

The Indian Telecom Industry^{Tower}



The expansion plans of new as well as old players were surrounded by regulatory uncertainties related to auction of spectrum and the huge cash outflows which resulted into subdued BTS addition in FY13. BTS growth drastically declined to lower single-digit over Feb-12 to Jan-13 period. 3G BTS account for a small proportion of total BTS in India. Though this implies enormous scope for 3G BTS addition, most of the 3G BTS addition is happening at sites where the operator already has a 2G BTS in place. This bundled BTS arrangement attracts very little or no rental and doesn't have significant impact on the top-line of tower companies.

Base Transceiver Station (BTS) Growth will witness deceleration, while 3G roll-out to have marginal upside on topline

4G Roll Out will bring in cheers for Tower companies even as tower addition will be flat over next two years

As Indian BWA licensees decide to roll out their services over next few years, there will be additional tenancies for tower companies. Tower addition in India slowed down considerably in the last few years. CARE Research believes that tower addition in the near future will remain sluggish due to factors like overcapacity, limited capacity of the players to further expand due to stretched balance sheets, increased focus on boosting tenancy rather than adding towers.

Tenancy ratio in the Indian tower industry remains at $\sim 1.8x$ compared to more than $2.5x$ in advanced economies like U.S. Most of the private players have tenancy of closer to $2x$. CARE Research estimates that there will be marginal improvement in overall tenancy by FY15, primarily due to increased sharing in Metro and Category A and B circles leading to increased tenancy ratio.

Tenancy ratio to see modest enhancement

Infrastructure Status to Tower industry to boost investments but will have limited impact

Infrastructure status will help tower companies get domestic loans at softer interest rates and for longer tenure. Tower companies will be eligible for viability gap funding (VGF) reducing the capex for new tower projects. Infrastructure status to telecom tower industry is a welcome move though the impact of the same will be predominantly limited to investments at existing sites as the new tower addition has reduced considerably.

As $\sim 60\%$ of the total power supplied to telecom towers is off-grid due to lack of grid power supply (70% of towers sites in India do not have grid power supply for more than 12 hrs a day on an average basis), telecom service providers and the tower companies (though partially) are incurring huge energy related costs. There is a lot of emphasis on use of renewable energy sources like solar energy, wind energy, fuel cell, biomass etc. Most of the renewable sources require considerable capex in the beginning.

Green Telecom – viability still an issue, outsourcing model offers hope

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- Credit Rating

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